

**NEBRASKA INVESTMENT COUNCIL
MINUTES OF THE MEETING OF
March 26, 2013**

A regular meeting of the Nebraska Investment Council convened at 8:33 a.m. at the Courtyard by Marriott Lincoln Downtown, in Lincoln, NE.

Public notice was posted on the Nebraska Public Meeting Calendar on March 11, 2013, and published in the Lincoln Journal Star on March 17, 2013. Ms. Werner-Robertson chaired the meeting and Ms. Dawes recorded the minutes.

MEMBERS PRESENT:

Ms. Gail Werner-Robertson
Dr. Richard DeFusco (arrived at 9:25 a.m.)
Mr. John Maginn
Mr. John Dinkel
Mr. John Conley
Treasurer Don Stenberg
Ms. Phyllis Chambers

NONMEMBERS IN ATTENDANCE:

Mr. Jeff States, State Investment Officer
Ms. Kathy Dawes, Council Secretary
Mr. Christopher Heinrich, Harding & Shultz
Mr. Joe Jurich, Nebraska Investment Council
Ms. JoLynn Winkler, Nebraska Investment Council
Mr. Max Kotary, Hewitt EnnisKnupp
Ms. Laurel Nicholson, Hewitt EnnisKnupp
Ms. Catherine Polleys, Hewitt EnnisKnupp
Mr. David Rose, Hewitt EnnisKnupp
Ms. Rachel Biar, State Treasurer's Office
Mr. David Cota, FNBO
Mr. Stacy Auman, FNBO
Ms. Deborah Goodkin, College Savings Plans

ADVISE THE PUBLIC THAT THE OPEN MEETINGS LAWS APPLY: 8:33 a.m. to 8:34 a.m. Ms. Werner-Robertson advised that the Nebraska Open Meetings Act applies and stated that a copy of the Open Meetings Act is located on the side table.

APPROVAL OF THE MINUTES OF THE FEBRUARY 26, 2013 MEETING AND THE AUGUST 23, 2012 MEETING: 8:34 a.m. to 8:36 a.m. Mr. Maginn moved that the March 11, 2013, draft of the minutes of the February 26, 2013, meeting and the March 6, 2013, revised minutes of the August 23, 2012, meetings be approved as written. Mr. Conley seconded the motion. Ms. Werner-Robinson called for a roll call vote.

VOTING AYE:	Mr. Maginn
	Mr. Dinkel
	Mr. Conley
	Ms. Werner-Robertson

ABSENT NOT VOTING:	Dr. DeFusco
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The motion carried.

COUNCIL MEMBER BUSINESS: 8:36 a.m. to 8:40 a.m. Ms. Werner-Robertson welcomed everyone to the meeting. Ms. Werner-Robertson informed the Council that Dr. DeFusco was teaching a class and would be arriving shortly. Ms. Werner-Robertson stated that today's meeting would include presentations by two of the NIC's existing managers as well as two presentations on opportunities in the fixed income strategies for the Council's consideration. Ms. Werner-Robertson thanked Mr. States and his staff on their work in developing the 2012 NIC Annual Report. Mr. States thanked Mr. Jeremiah Garber, Portfolio Manager, for coordinating efforts in completing the Annual Report. Mr. States indicated that both Turner Investments and Dimensional Fund Advisors are presenting at today's meeting as a part of the NIC's regular due diligence portfolio review. Mr. States stated

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that today's meeting touches on all four of the NIC's asset classes.

REAL ESTATE PORTFOLIO PERFORMANCE AND MANAGER RECOMMENDATION PRESENTATION BY HEWITT ENNIS KNUPP: 8:40 a.m. to 9:40 a.m. Ms. Polleys and Mr. Rose reviewed the 3rd Quarter 2012 Real Estate Portfolio Update and a preliminary report on the 4th Quarter 2012 performance for the core funds; both were included in the meeting book. Their presentation included a market update, portfolio performance and a review of pacing for 2013.

Dr. DeFusco arrived at 9:25 a.m.

The Council took a break and reconvened at 9:50 a.m.

TURNER INVESTMENTS RUSSELL 2500 GROWTH EQUITY PORTFOLIO REVIEW: 9:50 a.m. to 11:00 a.m. Mr. States introduced Mr. Jason Schrotberger, CFA, Senior Portfolio Manager/Global Equity Analyst and Ms. Carolyn Patton, CFA, Global Head of Client Relations/Senior Managing Director. Turner Investments was selected by the NIC in 2007 to manage investments in the Defined Benefit and Cash Balance Benefit Plans, the General Endowments and the Health Care Endowment Fund. Their presentation which was included in the meeting book provided an overview of the firm, investment process, NIC portfolio performance and a review of the investment relationship with the NIC.

DIMENSIONAL FUND ADVISORS, INC. (DFA) RUSSELL 2000 VALUE PORTFOLIO REVIEW: 11:00 a.m. to 11:40 a.m. Mr. States introduced Mr. Glenn Kemp, Vice President, Mr. Bob Deere, Investment Director and Senior Portfolio Manager, and Mr. Lucas Smart, Portfolio Manager. DFA was first selected by the NIC in 1996 and manages investments in the Defined Benefit and Cash Balance Benefit Plans, Defined Contribution and Deferred Compensation Plans, the General Endowments and the Health Care Endowment Fund. Their presentation which was included in the meeting book gave an overview of the firm, investment philosophy, portfolio management, portfolio implementation and performance for the three different DFA funds in which the NIC invests.

The Council took a break and reconvened at 11:50 a.m.

FIXED INCOME CYCLICAL/TRANSIENT ALTERNATIVES: 11:50 a.m. to 2:30 p.m. Mr. States indicated that the Council had requested at the February 26, 2013, Council meeting additional due diligence be done by both the NIC staff and HEK on two of the manager strategies presented at that meeting, Oaktree and PIMCO, and invite them to present at today's meeting on the funds currently being offered by their firm.

OAKTREE REAL ESTATE DEBT FUND: Mr. States introduced Mr. Justin Guichard, Managing Director, Mr. Keith Gollenberg, Managing Director, and Ms. Lisa Kenyon, Senior Vice President. Their presentation which is included in the attachments to the minutes provided an overview of Oaktree, investment philosophy, real estate strategy and capabilities, track record, and fees.

PIMCO BRAVO II FUND: Mr. States introduced Ms. Julie A. Meggers, CFA, Executive Vice President/Account Manager, Ms. Jennifer S. Bridwell, Managing Director, and Mr. John Murray, Executive Vice President/Portfolio Manager. Their presentation which was included in the meeting book discussed the Firm, the Fund's strategy, team and a fundraising status update.

Following the presentations and discussion by the Council, Mr. Dinkel moved to commit 10% of the final total commitment size of the Oaktree Real Estate Debt Fund up to \$100.0 million from the Defined Benefit/Cash Balance Benefit Plans to the Oaktree Real Estate Fund, provided that the commitment shall be limited to not more than 10% of the aggregate commitments to the Fund. The approval authorizes the State Investment Officer to take all action necessary to complete the subscription; subject to legal review of the investment documents by counsel provided by HEK and the Council's attorney. Dr. DeFusco seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE:

Mr. Maginn
Mr. Dinkel

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Mr. Conley
Ms. Werner-Robertson
Dr. DeFusco

The motion carried.

Mr. Maginn requested discussion continue on the PIMCO Bravo II Fund at the next Council meeting, which is scheduled for May 14, 2013.

PRIVATE EQUITY INVESTMENT COMMITMENT FOR WAYZATA OPPORTUNITIES FUND III, L.P.: 2:30 p.m. to 2:45 p.m. In accordance with the Council's Private Equity Investment Policy, Mr. States presented to the Council for their consideration a recommendation from staff and HEK to commit \$25.0 million to Wayzata Opportunities Fund III, L.P. (WOF III). WOF III is a private equity distressed debt/credit fund. A report from Wayzata on the Fund, HEK's due diligence summary analysis and rating and staff's due diligence report were included in the meeting book. Following discussion by the Council, Mr. Dinkel moved to allocate \$25.0 million to Wayzata Opportunities Fund III, L.P., subject to legal review of the Limited Partnership Agreement by counsel provided by Hewitt EnnisKnupp and by the Council's attorney. Mr. Conley seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE:

Mr. Dinkel
Mr. Conley
Ms. Werner-Robertson
Dr. DeFusco
Mr. Maginn

The motion carried.

NEBRASKA EDUCATIONAL SAVINGS TRUST PROPOSED FUND INVESTMENT CHANGES: 2:45 p.m. to 3:05 p.m. Ms. Nicholson reviewed with the Council the March 14, 2013, memo in the meeting book relating to Tributary Capital Management. Tributary Capital Management manages two strategies within the College Savings Plan (CSP), the Tributary Core Equity Fund and the Tributary Small Company Fund. Ms. Nicholson indicated that the NIC and First National Bank of Omaha (FNBO) had concerns with the weak performance within the Core Equity Fund, and also the announcement of a change in the portfolio manager resulting from a recent retirement. Following a due diligence visit by NIC staff and HEK a recommendation is being made that the Council replace the Tributary Core Equity Fund. A recommendation by HEK and the NIC staff that the Tributary Capital Core Fund be replaced in the participant directed program with the Vanguard Equity Income Fund and to replace the fund in the advisor directed program with either the Dodge & Cox Stock Fund or the T. Rowe Price Large Cap Value Fund. Treasurer Stenberg stated that as plan trustee he is recommending that the Vanguard Equity Income Fund replace the Tributary Capital Core Fund in the participant directed program. Mr. David Cota, Senior Managing Director, FNBO, commented on the proposed replacement funds. HEK also provided a report summarizing the two replacement candidates in the advisor directed program. A copy of the report was included in the meeting book. Following discussion by the Council, Mr. Conley moved to replace the Tributary Capital Core Fund with the Vanguard Equity Income Fund in the participant directed program, and to replace the fund with the Dodge & Cox Stock Fund in the advisor directed program. Dr. DeFusco seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE:

Mr. Conley
Ms. Werner-Robertson
Dr. DeFusco
Mr. Maginn
Mr. Dinkel

The motion carried.

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STATE TREASURER'S REPORT: 3:05 p.m. to 3:15 p.m. Treasurer Stenberg discussed current legislation that could affect the Treasurer's Office. LB296 is a priority bill of Senator Brasch. The bill would increase the Nebraska state income tax deduction limitations available for contributions made to the Nebraska College Savings Program from \$2,500.00 to \$5,000.00 for a married person filing separately and to \$10,000.00 for a joint filing. Treasurer Stenberg provided information on the University of Nebraska Group Health Trust (Trust Fund). The Trust Fund, which is held at Wells Fargo, provides benefits for University employees. The Auditor of Public Accounts has stated that State law designates the State Treasurer as the custodian of university funds; LB138 creates a Group Health Trust Fund and places it under the control of the State Treasurer.

NPERS DIRECTOR'S REPORT: 3:15 p.m. to 3:20 p.m. Ms. Chambers discussed current legislation that could affect NPERS. Priority bills are LB263 NPERS' technical bill, which includes Internal Revenue code updates and technical and clarifying changes to the various retirement plans and LB553 which addresses both short-term and long-term funding obligations in the School Employees Retirement System. Ms. Chambers stated that NPERS is tentatively scheduled to move to the 1526 Building in October 2013. Ms. Chambers stated that NPERS will be presenting it's Annual Report to the Legislative Retirement Committee on March 27, 2013, copies of the Report will be sent to the Council in the near future.

STATE STREET SECURITIES LENDING AUTHORIZATION AGREEMENT AMENDMENT: 3:20 p.m. to 3:30 p.m. Mr. States distributed copies of the proposed extension and amendment to the Securities Lending Authorization Agreement between the NIC and State Street Bank. Mr. States indicated that staff is recommending that the agreement be extended through June 30, 2015. Following discussion by the Council, Dr. DeFusco made the following motion: I hereby move to extend the Securities Lending Authorization Agreement by and between the Nebraska Investment Council and State Street Bank and Trust Company dated April 8, 2008. Pursuant to the terms of the proposed Amendment, the Agreement shall be extended through June 30, 2015. The State Investment Officer is authorized and directed to execute any and all documents necessary in the discretion of the SIO to effectuate the extension of the Agreement, including the Amendment. Mr. Maginn seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE:	Ms. Werner-Robertson
	Dr. DeFusco
	Mr. Maginn
	Mr. Dinkel
	Mr. Conley

The motion carried.

STATE INVESTMENT OFFICER'S REPORT: 3:30 p.m. to 3:49 p.m.

Agency Budget Update: Mr. States reviewed the Agency's February 28, 2013 Budget Report, which was included in the meeting book and reported that the Agency is under-budget for the fiscal year.

Legislative Update: Mr. States distributed a listing of legislative bills and their status which may affect the NIC. A copy of the list is included in the attachments to the minutes.

Annual Report Review: Mr. States stated that he will be presenting the NIC's 2012 Annual Report to the Legislative Retirement Committee on Wednesday, March 27, 2013.

July Board Retreat: Mr. States reminded the Council that the Board Retreat will be held on July 16, 2013, at Quarry Oaks near Ashland.

IMAs Executed Since Last Meeting: Mr. States reported that a most favored nation clause was completed for RCP and that the extension and amendment of the State Street Custodian Bank Agreement also was completed.

Action Plan: The May 14, 2013 Council meeting will be at Lincoln's Embassy Suites, in the Alumni Room conference room.

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PUBLIC COMMENT ON THE AGENDA: 3:49 p.m. to 3:50 p.m. Ms. Werner-Robertson asked if there was any public comment on the agenda. There was no public comment on the agenda.

At 3:50 p.m. Dr. DeFusco moved to adjourn the meeting. Mr. Conley seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE:

Dr. DeFusco
Mr. Maginn
Mr. Dinkel
Mr. Conley
Ms. Werner-Robertson

The motion carried.


Kathy Dawes, Secretary